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SUBJECT: VIETNAM AND CHINA WORKING TO BOOST RELATIONS

11. (SBU) Summary: While U.S.-Vietnam relations have been improving and expanding, fueled by the June visit of the Prime Minister to Washington, Sino-Vietnamese relations have not been standing still. In keeping with its long-standing "balancing" strategy, Vietnam sent State President Tran Duc Luong to China for a State Visit in mid-July. The purpose of the visit was to make progress on some nuts-and-bolts issues that currently clog Sino-Vietnamese relations, in particular the lack of Chinese investment in Vietnam, the Vietnamese trade deficit with China, the slow speed of border demarcation, fishing rights and joint naval patrols in the Gulf of Tonkin, and exploration and exploitation of natural resources in the South China Sea. The official line is that the Luong visit was a spectacular success and a typical example of two friendly Socialist partners deepening an already close bilateral relationship. The unofficial line is that, despite the Vietnamese coup of securing major Chinese concessions in concluding bilateral negotiations regarding Vietnam's entry into the World Trade Organization (WTO), the visit was "ruined" by single-minded Chinese harping on the UNSC expansion issue, which President Luong was not prepared to address. Both sides are looking forward to the visit of China's President and Communist Party General Secretary Hu Jintao in November as the real bilateral high-level event of the year. End Summary.

PRESIDENT LUONG'S JULY VISIT: NOT BAD ON THE SURFACE, BUT.

12. (SBU) Following Prime Minister Phan Van Khai's historic June visit to the United States, the Vietnamese were eager for President Tran Duc Luong's visit to China be a success that would restore "balance" to the relationship among Vietnam, China and the United States, according to our Vietnamese think tank interlocutors. The GVN hoped for a visit that would be long on ceremony and which would address the future of Sino-Vietnamese relations, including a possible addition to or rewording of the "sixteen character framework" that defines current bilateral relations. (The sixteen characters can be translated as: "good neighbors, comprehensive cooperation, long-term stability, looking forward to the future.") The Vietnamese were by all accounts disappointed, except for state-owned propaganda outlets. Luong had productive meetings on practical issues such as border demarcation, increasing Chinese investment in Vietnam and concluding Vietnam's bilateral WTO negotiations with China, but his high-level discussions with Chinese leaders were completely dominated by the UNSC reform issue. Shortly after returning from the visit, Vice Foreign Minister Vu Dzong told the Ambassador that "all the Chinese wanted to talk about was the G-4 proposal. It ruined the visit."

13. (SBU) Later, MFA officials tried to spin the visit as a great success. "Recently, visits like this tend to focus more on groundwork and concrete measures to improve trade and sign specific projects rather than just formal policy discussions," one China desk officer told Poloff. The visit made "great progress" on commercial issues, with "over USD two billion in contracts signed." An officer at the Chinese Embassy in Hanoi had an alternative interpretation, telling Poloff that "USD two billion in promises does not mean USD two billion in contracts." Shaking his head, he continued, "those were mostly contracts signed by raw materials importing companies that do that much business with Vietnam anyway. The agreements were ceremonial, no big thing."

WTO AGREEMENT AND TRADE WITH CHINA

14. (SBU) President Luong did score one major coup on his trip: concluding bilateral negotiations on Vietnam's WTO entry. China made significant, and unexpected, concessions in the last round that allowed Luong to announce that the two sides had concluded negotiations, a major priority for the GVN. Most were caught unawares by the rapid conclusion of China-Vietnam WTO talks. "Even we were surprised by that," the official at the Chinese Embassy in Hanoi said. According to an unvetted source in Hanoi, the Chinese were reportedly unhappy that their negotiators had to cave for the sake of a political deal. In official discussions, the MFA was quick to suggest that the deal would reduce

Vietnam's trade deficit with China (the deficit was about USD 2.3 billion in 2004, according to Dr. Do Tien Sam of the China Studies Center, a Hanoi think tank), but speaking privately, some of the MFA's China trade experts disagreed. The WTO agreement "would hardly have any real impact on the bilateral trade balance, even though the two sides want it to be so and agreed to create favorable conditions for Vietnamese goods to enter China's markets," one MFA expert admitted. "In theory, this is a good step. In practice, reducing the trade deficit is not at all easy," he continued.

NUTS AND BOLTS: BORDER ISSUES

15. (SBU) The MFA, the China Studies Center and the Chinese Embassy in Hanoi all agree that, in addition to the trade deficit, "border and territory" issues are serious bilateral irritants. "The speed of demarcation of the border is a problem," Dr. Sam told Poloff. Chinese Embassy officials confirmed to Poloff that President Luong signed an agreement with the Chinese Government to accelerate the border demarcation process, with a view to completing it by 2008. The officials were cautiously optimistic about achieving this goal. They also noted that President Luong had signed an "important" promise with the Chinese Government to begin the demarcation of the region south of the mouth of the Tonkin Gulf.

NEXT STEP: HU JINTAO'S VISIT IN NOVEMBER

16. (SBU) The China Desk at MFA and the Chinese Embassy agree that the November visit of Chinese President and Communist Party General Secretary Hu Jintao will be a much more important event than President Luong's trip in July. "This will be President Hu's first trip to Vietnam since he consolidated power," the MFA official said. Hu's visit will also be "hands-on" and will cover "specific economic measures," rather than just confirming bilateral guidelines and frameworks, the MFA expert continued. These "specific measures" will be "unprecedented breakthroughs" if all goes well, Chinese Embassy contacts said. In particular, China is placing importance on an agreement to conduct joint naval patrols along the Tonkin Gulf demarcation line, and to sign an agreement paving the way for joint oil and gas exploration and exploitation in the South China Sea.

17. (SBU) China has never conducted joint naval patrols with any other country, the Chinese political officer said. Vietnam, however, has experience with Thailand in this area, so Beijing has looked to Hanoi for guidance on how to proceed. "That does not happen often," the Chinese Embassy officer said. "Vietnam gets to play the big brother for once." Vietnam is currently drafting the draft protocols for joint patrols, he added.

18. (SBU) Signing an agreement on joint petroleum exploration and development would be a very important step, our PRC Embassy contact continued. However, the Chinese are prepared for disappointment on that issue. "The Vietnamese did not want to cooperate with the China-Philippines joint exploration project, but they felt like they had no choice," he explained. "This time, maybe they have more choice." Our other China contacts had no comment on the issue of joint development of petroleum resources in the South China Sea, except to confirm that Vietnam had been reluctant to join the China-Philippines deal.

19. (SBU) Comment: China and Vietnam are working hard to address the major remaining issues between them, with differing amounts of success. The land border demarcation may actually be completed before the 2008 deadline, which would eliminate a source of low-level stress caused by farmers and local officials clashing in poorly-marked border areas, a common occurrence now. Joint patrols of the Tonkin Gulf could soothe another long-time friction point by reducing the number of violent incidents between Vietnamese and Chinese fishermen. The issues of the Vietnamese trade deficit and the difference of opinion over the ownership and use of the resources in the South China Sea, however, are not going to be solved in the short term.

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